

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EUR-12 CIAE-00 DODE-00 PM-05 H-01
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FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 2355
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TAGS. PEPR EMIN EINV EFIN PINT ELAB DR VE
SUBJECT: THIS WEEK IN VENEZUELA

REF: CARACAS 4364

SUMMARY: GOV REACTS STRONGLY AGAINST INTEREFERENCE IN DOMINICA
REPUBLIC ELECTIONS. CONGRESS FINALLY APPROVES TAX BILL. FINANCIAL
LOSSES OF GIANT STEEL COMPLEX ACKNOWLEDGED BY PRESIDENT
PEREZ. UNION AND NATIONAL TELEPHONE COMPANY REACH ACCORD.
MRS. NIEHOUS WRITES TO HUSBAND THROUGH CARACAS PRESS.
FRENCH WIN LARGE METRO CONTRACT. END SUMMARY.

1. GOV REACTS STRONGLY AGAINST INTEREFERENCE IN COMINICAN
REPUBLIC ELECTIONS.

THE VENEZUELAN FOREIGN MINISTRY, MAY 17, ISSUED A STATEMENT
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EXPRESSING "DEEP CONCERN" OVER EVENTS SURROUNDING THE
INTERRUPTION OF THE ELECTORAL PROCESS IN THE DOMINICAN
REPUBLIC, AND "OFFERED FULL SUPPORT" TO THE OAS MISSION IN
CHARGE OF OBSERVING THE ELECTIONS. THE STATEMENT ALSO NOTED
THAT PEREZ HAD TELEPHONED FORMER COLOMBIAN PRESIDENT PASTRANA,
ONE OF THE OAS OBSERVERS, TO OFFER VENEZUELAN SUPPORT TO
THE OAS TEAM'S EFFORTS. LOCAL PRESS OF MAY 19 REPORTED

PEREZ SUBSEQUENTLY SPOKE BY TELEPHONE WITH PRD PRESIDENTIAL CANDIDATE ANTONION GUZMAN TO DISCUSS THE SITUATION AND INFORMED GUZMAN THAT VENEZUELA, THE U.S., PANAMA, COLOMBIA AND COSTA RICA HAVE CALLED FOR A MEETING OF THE OAS. ACCION DEMOCRATICA, SISTER PARTY TO THE PRD, ALSO ISSUED ITS OWN STATEMENT MAY 18 EXPRESSING ITS CONCERN OVER EVENTS IN THE DOMINICAN REPUBLIC AND CALLING FOR A RESUMPTION OF THE ELECTORAL PROCESS.

COMMENT: PRIVATELY, PEREZ HAS EXPRESSED GREAT CONCERN TO US OVER THE INTERRUPTION IN THE DR ELECTIONS AND HAS ACTIVELY LOBBIED WASHINGTON, PANAMA, COLOMBIA AND COASTA RICA TO BRING PRESSURE ON BALAGUER TO INSURE THE INTEGRITY OF THE ELECTORAL PROCESS. PEREZ' REACTION STEMS NOT ONLY FROM THE AD CONNECTION AS A SISTER PARTY TO THE PRD, BUT ALSO BECAUSE OF VENEZUELA'S PARTICULAR ABHORENCE OF THE MEMORY OF TRUJILLO DICTATORSHIP IN THE DOMINICAN REPUBLIC. CLEARLY, PEREZ SEES IN THE DOMINICAN REPUBLIC'S PRESENT TRAVAIL ECHOES OF THE PEREZ JIMENEZ AND TRUJILLO DICTATORSHIPS, AND HE WANTS TO DO WHATEVER IS POSSIBLE TO AVOID THAT OUTCOME. END COMMENT.

2. INCOME TAX LEGISLATION PASSED BY CONGRESS.

A SPECIAL JOINT SESSION OF THE VENEZUELAN CONGRESS APPROVED THE AD GOVERNMENT'S INCOME TAX BILL MAY 18. THE CONTROVERSIAL TAX PACKAGE WAS FIRST PROPOSED ON NOVEMBER 10, 1976. SINCE THEN THERE HAS BEEN SERIOUS DOUBT THAT IT WOULD EVER LIMITED OFFICIAL USE

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BE APPROVED. IT WILL BECOME EFFECTIVE JULY 1, 1978, AND ITS MAJOR PROVISIONS ARE:

--A RESTRUCTURED PROGRESSIVE PERSONAL INCOME TAX WHICH SUBSTANTIALLY INCREASES THE BURDEN FOR THOSE WHOSE TAXABLE INCOME EXCEEDS BS. 200,000 (\$46,700) ANNUALLY. FOR THOSE WITH LOWER INCOME, THE TAX LIABILITY IS UNCHANGED.

--THE GOVERNMENT REMAINS DEPENDENT ON THE PETROLEUM SECTOR FOR MOST OF ITS REVENUE.

--THE GOVERNMENT POWER TO COMBAT TAX EVASION IS SUBSTANTIALLY INCREASED.

--HIGHER TAXES ON ALL LEVELS OF CORPORATE INCOME.

--TAXPAYERS MAY CLAIM A DEDUCTION EQUIVALENT TO 50 PERCENT OF DIVIDEND INCOME.

--FOREIGN BUSINESSMEN TRADING IN VENEZUELA INCUR A TAX LIABILITY EQUIVALENT TO AS MUCH AS 30 PERCENT OF INCOME CONSIDERED TO BE FROM VENEZUELAN SOURCES.

--ONLY AN ESTIMATED 10 PERCENT OF INCOME EARNERS WILL PAY ANY TAX WHATSOEVER; ONLY ABOUT 2 PERCENT WILL HAVE TO PAY MORE TAXES ON PERSONAL INCOME.

--WE ESTIMATE THE NEW LAW WILL BRING IN BS. 1 BILLION (234 MILLION) IN EW REVENUE, EQUIVALENT TO ABOUT 2 PERCENT OF 1977 GOV EXPENDITURES.

3. LOSSES AT CVG SIDOR

PRESIDENT PEREZ ADMITTED THAT THE NATION'S LARGEST STEEL MILL, CVG-SIDOR, WHOLLY-OWNED BY THE GOV'S GUYANA DEVELOPMENT CORPORATION, INCURRED LOSSES OF BETWEEN BS. 240 AND 250 LIMITED OFFICIAL USE

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MILLION (\$56-58 MILLION) DURING CALENDAR YEAR 1977. HE ATTRIBUTED THE LOSSES TO THE AGE OF THE EXISTING PLANT WHICH REQUIRES 35 TO 40 HOURS OF LABOR TO PRODUCE A TONE OF STEEL; HIGH RATES OF LABOR ABSENTEEISM AND TURNOVER, WITH CONCOMITANT HIGH TRAINING COSTS; FROZEN PRICES ON SIDOR'S PRODUCTS FROM JUNE 1974 UNTIL LATE DECEMBER 1977, GROWTH IN INVENTORIES OF RAW MATERIALS, AND LOW PRODUCTION (600,000 TONS IN 1977 VS. 900,000 TONS IN 1976). COMMENT: ALL THESE PROBLEMS EXIST. HOWEVER, THEY ARE NOT THE CAUSES BUT RATHER THE SYMPTOMS OF THE PRINCIPAL CUASE, SIDOR MANAGEMENT'S POOR PERFORMANCE. THIS, IN TURN, STEMS FROM THE 1975 DECISION TO GO AHEAD WITH THE RAPID IMPLEMENTATION OF THE SIDOR PLAN IV EXPANSION (FROM 1.2 TO 4.8 MILLION TONS PER YEAR CAPACITY) IN PUERTO ORDAZ, AN AREA LAMOST TOTALLY LACKING IN THE PHYSICAL AND HUMAN INFRASTRUCTURE NECESSARY FOR SUCH A MASSIVE UNDERTAKING.

END COMMENT.

4. NATIONAL TELEPHONE COMPNAY (CANTV) CAVES IN.

LABOR-MANAGEMENT TENSION IN CANTV DESCRIBED LAST WEEK APPEARS TO HAVE EASED. AFTER RECEIVING BRIEFINGS BY THE DISSIDENT PROFESSIONALS WHO WERE DISCHARGED, THE PRESIDENT OF CANTV, AS WELL AS ANY EXTRORDINARY MEETING WITH THE MINISTER OF TRANSPORT AND COMMUNICATIONS, THE COLLEGE OF ENGINEERS SUGGESTED A COMPROMISE WHICH HAS BEEN ACCEPTED BY THE TELEPHONE COMPANY. ACCORDING TO THE COMPROMISE, THE PRESIDENT OF THE TELEPHONE COMPANY PROFESSIONALS UNION WILL BE REINSTATED IN HIS POSITION. THERE WILL BE NO FURTHER PUBLIC RECRIMINATION. A WORKING COMMISSION OF TELEPHONE COMPANY EXECUTIVES WILL MEET WITH THE DISSIDENT PROFESSIONALS.

COMMENT: THE NET EFFECT ON THE VERY SUBSTANTIAL PURCHASE LIMITED OFFICIAL USE

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OF TELEPHONE CENTRALS AND ON POSSIBLE US BIDDERS SUCH AS
WESTERN ELECTRIC IS UNCLEAR. END COMMENT.

5. MRS. NIEHOUS WRITES TO HUSBAND THROUGH CARACAS PRESS.
"EL NACIONAL" OF MAY 19 PUBLISHED A LETTER FROM MRS. NIEHOUSE
ADDRESSED TO HER HUSBAND. ESSENCE OF LETTER IS THAT SHE AND
FAMILY ARE WELL AND THAT SHE HOPES NIEHOUS KNOWS THAT
JACK ANDERSON HAS OFFERED TO BE AN INTERMEDIARY IN RESOLVING
THE CASE.

6. FRENCH WIN METRO CONTRACT.

THE GOV FINALLY AWARDED THE CONTRACT FOR ROLLING STOCK,
TRAIN CONTROLS AND COMMUNICATIONS SYTEMS, ELECTRIFICATION AND
INSTALLATION OF TRACK FOR THE CARACAS METRO TO THE LOW BIDDER,
SGTE OF FRANCE, AFTER REVIEWING AND NEGOTIATING THE BID FOR MORE
THAN 13 MONTHS. SECOND LOWEST BIDDER C. ITOH OF JAPAN HAD
OFFERED THE FRENCH INTENSE RIVALRY AS THEIR BID WAS CONSIDERED
MORE TECHNICALLY RESPONSIVE. THIRD RANKED SIEMENS' (GERMANY)
LAST MINUTE PLOY TO CAPTURE THE BID BY OFFERING TO BARTER
HEAVY CRUDE OIL FOR EQUIPMENT, WHICH WAS PRESENTED TO THE
"HIGHEST LEVELS" OF THE GOV, FAILED. THE FINAL PRICE
OF THE CONTRACT, QUOTED IN TWO PARTS-ONE IN FRENCH FRANCS
AND THE OTHER IN BOLIVARS, TOTALS APPROXIMATELY \$253 MILLION.
THIS IS ABOUT \$23 MILLION HIGHER THAN THE ORIGINAL BID.
HOWEVER, METRO OFFICIALS CLAIM THE FINANCIAL PACKAGE WAS
GREATLY IMPROVED.

6. OTHER REPORTING THIS WEEK INCLUDED: THE TEACHER'S STRIKE
(CARACAS 4492), CTV RECALL OF ITS REPRESENTATIVE ON THE CENTRAL
BANK (CARACAS 4493), IMETP FOR VENEZUELA--BROADER IMPLICATIONS OF
ARMS RESTRAINT (CARACAS 4512), NUCLEAR FUEL FOR VENEZUELAN RESEARCH
REACTOR (CARACAS 4353), ENERGY TECHNOLOGY COOPERATION WITH
VENEZUELA--ENHANCED OIL RECOVERY AND HEAVY OIL (CARACAS 3456),
CIVAIR--BILATERAL CONSULTATIONS (CARACAS 4476), AND A MAJOR
PROJECT: LONG-RANGE RADAR PROGRAM (CARACAS 4524).

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Message Attributes

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